

April 23, 1999

**Non-consolidated financial summary for the year ended March 31, 1999**

- Daiwa Securities Co. Ltd. (the Company) lists its stock on the Tokyo Stock Exchange, Osaka Securities Exchange, and Nagoya Stock Exchange in Japan.
- The board of directors approved the financial result of the Company on April 23, 1999.
- The fiscal year starts on April 1 and ends on next March 31 in each year.

(1) Operating results

Note : All figures in the financial statements are rounded down to the nearest millionth.  
“△” indicates a loss or negative figure.

	Operating revenues	Increase /decrease	Operating Income	Increase /decrease	Ordinary Income	Increase /decrease
	million yen	%	million yen	%	million yen	%
Current fiscal year (99/3)	257,184	0.5	17,129	179.9	16,592	224.8
Last fiscal year (98/3)	255,946	△12.3	6,119	△86.0	5,109	△88.5

	Net income /loss	increase /decrease	Net income/loss per share	Diluted net income per share	Return on stockholders' equity
	million yen	%	yen	yen	%
Current fiscal year (99/3)	△116,972	—	△87.80	—	△17.0
Last fiscal year (98/3)	△ 57,969	—	△43.20	—	△7.4

1. Average number of shares outstanding: For the year ended March 31, 1999 1,332,135,378  
For the year ended March 31, 1998 1,341,671,545

2. Changed in accounting treatment  
3. Tax effect accounting is applied in this fiscal year.

(2) Dividend

	Dividend per share			All dividend	Dividend payout ratio	Stockholders' equity dividend ratio
	Total dividend	Interim dividend	Year-end dividend			
	yen	yen	yen	million yen	%	%
Current fiscal year (99/3)	5.00	—	5.00	6,658	—	1.1
Last fiscal year (98/3)	6.00	—	6.00	8,012	—	1.1

(3) Financial conditions

	Total assets	Stockholders' equity	Stockholders' equity ratio	Stockholders' equity/share	Capital adequacy ratio
	million yen	million yen	%	yen	%
Current fiscal year (99/3)	4,671,392	626,193	18.7	470.21	312.3
Last fiscal year (98/3)	6,076,702	751,059	17.6	562.35	303.3

1. Number of outstanding shares as of:  
 - March 31, 1999 1,331,722,462  
 - March 31, 1998 1,335,554,462
2. Unrealized gain on investment securities as of March 31, 1999 50,881 mil. yen
3. Unrealized gain on non-trading derivatives as of March 31, 1999 506 mil. yen
4. Stockholders' equity ratio = Total stockholders' equity / (Total liabilities\* + Total stockholders' equity)  
 \*Excluding Securities deposited by customers as collateral and short-term securities borrowed

Contact: Tsunemi Hayashi, General Manager, Accounting Department

Phone: +813-3243-2111

## Dividend Policy

Our basic dividend policy is to return the profits to the shareholders as stable but more performance-based as possible, while taking into consideration such a need to accumulate earnings as to build a robust operating base.

We will submit a 5 yen per share-payment to the coming General Meeting of Shareholders, which is feasible by a withdrawal of the accumulated earnings despite the huge loss, resulting in 1.1% of a dividend to shareholders' equity ratio. As another way of a return to our shareholders, we have purchased back the shares for retirement amounting to 3,832 thousand shares, ¥1,907 million by the end of this fiscal year.

## Business Transfer

On April 5, 1999, Daiwa Securities Co. Ltd. has transferred its wholesale business divisions to Daiwa Securities SB Capital Markets Co. Ltd., 60%-owned subsidiary capitalized with 205.6 billion yen, in accordance with the final agreement with The Sumitomo Bank, Limited on December 18, 1998 and the approval regarding the transfer in the Extraordinary Meeting of Shareholders which was held on February 5, 1999.

Additionally, following the retail business transfer approved in the Extraordinary Meeting mentioned above, Daiwa Securities Preparation Co. Ltd., whose corporate name will change into (new) Daiwa Securities Co. Ltd. is supposed to start its operations on April 26, 1999 with capital of 100 billion yen.

Current Daiwa Securities Co. Ltd. will transform into a holding company whose name will be Daiwa Securities Group Inc. on April 26, 1999, and thereafter governing the operating group companies such as Daiwa Securities SB Capital Markets Co. Ltd. and (new) Daiwa Securities Co. Ltd.

## Balance Sheets

(millions of yen)

	Mar.31,1999	Mar.31,1998	Increase /decrease
Current assets:			
Cash and time deposits	445,856	306,018	139,838
Cash segregated as deposits related to securities transactions	4,828	4,804	23
Receivables	22,066	25,327	△3,261
Trade date accrual	246,473	27,303	219,170
Advance payments on securities subscribed	199	398	△198
Short-term loans	118,347	123,293	△4,946
Accounts receivable	7,649	5,141	2,508
Accrued income	13,224	15,135	△1,911
Trading assets:	932,612	2,163,458	△1,230,846
Trading securities and other	792,927	2,047,326	△1,254,398
Option transactions	11,387	656	10,731
Derivative valuation accounts	128,296	115,475	12,821
Commodities other than securities	—	699	△699
Receivables related to margin transactions:	141,261	94,293	46,968
Loans receivable from customers			
for margin transactions	72,451	65,612	6,839
Cash deposits as collateral for securities borrowed from securities finance companies	68,810	28,680	40,129
Receivables related to Gensaki transactions	320,062	339,322	△19,259
Cash deposits as collateral for securities borrowed	521,814	562,186	△40,371
Securities in custody	1,323,990	1,800,453	△476,463
Short-term guarantee money deposited	9,780	25,365	△15,585
Deferred income taxes assets-current	81,810	—	81,810
Other current assets	17,771	34,940	△17,168
Less: Allowance for doubtful accounts	△ 1,732	△ 555	△1,177
Total current assets	4,206,018	5,527,587	△1,321,569
Non-current assets:			
Tangible fixed assets	20,628	20,969	△340
Building and structures	1,381	1,554	△173
Equipment	12,153	12,321	△168
Land	7,094	7,093	0
Intangible fixed assets	1,088	1,112	△24
Investments and other:	443,657	527,033	△83,375
Investment securities	167,308	208,167	△40,858
Subsidiaries' stock	112,962	166,307	△53,344
Long-term loans	59,632	51,105	8,527
Long-term guarantee deposits	75,155	75,478	△323
Long-term prepaid expenses	9,934	6,042	3,892
Other investments	20,830	24,133	△3,302
Less: Allowance for doubtful accounts	△ 2,167	△ 4,201	2,033
Total non-current assets	465,374	549,115	△83,740
Total assets	4,671,392	6,076,702	△1,405,309

(millions of yen)

	Mar. 31, 1999	Mar. 31, 1998	Increase /decrease
Current liabilities:			
Short-term borrowings	255,218	220,444	34,773
Commercial paper	30,200	—	30,200
Bonds due within one year	19,419	30,352	△10,933
Deposits received	92,154	93,301	△1,146
Advance receipts on securities subscribed	2,741	2,469	271
Accrued liabilities	41,679	2,089	39,589
Trading liabilities:	612,986	688,075	△75,088
Trading securities and other	476,599	559,180	△82,580
Option transactions	6,362	594	5,768
Derivative valuation accounts	130,024	128,300	1,724
Payables related to margin transactions:	72,791	61,239	11,552
Loans from securities finance companies for margin transactions	18,098	19,301	△ 1,203
Proceeds of securities sold for customers' accounts on margin transactions	54,692	41,937	12,755
Payables related to Gensaki transactions	593,315	1,064,270	△470,954
Cash deposits as collateral for securities loaned	574,082	1,018,192	△ 444,109
Short-term securities borrowed	907,038	1,453,569	△546,531
Cash deposits received from customers	51,396	39,096	12,299
Securities deposited by customers as collateral	416,951	346,883	70,068
Accrued income taxes	440	973	△533
Accrued bonuses	8,800	7,800	1,000
The reserves of financial assistance to related companies	58,200	—	58,200
Other current liabilities	7,741	7,595	145
Total current liabilities	3,745,157	5,036,354	△1,291,197
Non-current liabilities:			
Convertible bonds	94,371	113,790	△19,419
Long-term borrowings	203,000	108,000	95,000
Accrued retirement benefits	1,394	20,676	△19,281
Other non-current liabilities	492	155	337
Total non-current liabilities	299,258	242,621	56,637
Statutory reserves:	783	46,666	△45,883
Trading loss reserves	—	46,125	△46,125
Stock trading loss reserve	—	34,603	△34,603
Bond trading loss reserve	—	11,522	△11,522
Securities exchange liability reserve	779	536	243
Financial futures transaction liability reserve	4	5	△1
Total liabilities	4,045,199	5,325,642	△1,280,443
Stockholders' equity:			
Common stock	138,424	138,424	—
Legal reserve:	163,114	161,511	1,603
Additional paid-in capital	117,779	117,779	—
Earned surplus reserve	45,335	43,732	1,603
Retained earnings:			
General-purpose reserve	441,000	513,000	△72,000
Unappropriated retained earnings	△116,346	△61,877	△54,468
(Current term net profit/loss)	(△116,972 )	(△57,969 )	(△59,002 )
Total retained earnings	324,653	451,122	△126,468
Total stockholders' equity	626,193	751,059	△124,865
Total liabilities and stockholders' equity	4,671,392	6,076,702	△1,405,309

## Income Statements

(millions of yen)

	Current fiscal year (99/3)(A)	Last fiscal year(98/3)(B)	Increase/decrease	(A)/(B)(%)
Operating revenues	257,184	255,946	1,237	100.5
Commissions	177,123	182,307	△ 5,184	97.2
Net gain on trading securities	45,820	18,287	27,532	250.6
Net gain on commodities trading	16	52	△ 35	32.1
Interest and dividend income	34,223	55,298	△ 21,075	61.9
Operating costs and expenses	240,055	249,826	△ 9,771	96.1
selling general and administrative expenses	218,634	217,026	1,607	100.7
Interest expenses	21,420	32,799	△ 11,379	65.3
Operating income/loss	17,129	6,119	11,009	279.9
Other income	944	1,122	△ 178	84.1
Other expense	1,480	2,132	△ 652	69.4
Ordinary income/loss	16,592	5,109	11,483	324.8
Extraordinary gain	49,923	4,970	44,953	1,004.4
Gain on sales of investment securities	3,797	4,912	△ 1,114	77.3
Reversal of stock trading loss reserve	34,603	—	34,603	—
Reversal of bond trading loss reserve	11,522	—	11,522	—
Reversal of statutory reserve	—	58	△ 58	—
Reversal of financial futures transaction liability reserve	1	—	1	—
Extraordinary loss	262,895	67,749	195,146	388.0
Financial assistance to related companies	115,800	39,900	75,900	290.2
Prior-year adjustment for retiring officer's benefit	973	—	973	—
Liquidation loss of retirement pay	12,785	—	12,785	—
Provision for doubtful accounts	—	3,935	△ 3,935	—
Write-off of securities	463	976	△ 513	47.5
Devaluation of subsidiaries' stock	115,137	—	115,137	—
Restructuring of overseas business	2,709	—	2,709	—
Exchange loss on liquidation of subsidiaries	—	2,008	△ 2,008	—
Restructuring of facilities	2,018	—	2,018	—
Expenses for company split	2,561	—	2,561	—
Transfer loss of investment securities	2,383	—	2,383	—
Valuation loss of investment securities	7,819	20,928	△ 13,108	37.4
Provision of statutory reserve	243	—	243	—
Income before income taxes	△ 196,378	△ 57,669	△ 138,709	340.5
Income taxes	295	300	△ 4	98.4
Income taxes-deferred	△ 79,702	—	△ 79,702	—
Net income	△ 116,972	△ 57,969	△ 59,002	—
Unappropriated retained earnings carried over	506	148	357	340.5
Redemption of treasury stock	1,970	4,057	△ 2,086	48.6
Cumulative effect of change in accounting for income taxes	2,090	—	2,090	—
Unappropriated retained earnings /deficit	△ 116,346	△ 61,877	△ 54,468	—

A plan of appropriation of profit

(millions of yen)

	Itemization	Amount
Unappropriated retained earnings		△116,346
Drew voluntary reserve:		124,000
Drew general reserve	124,000	
Total		7,653
The above profit is appropriated under plan, after approval by shareholders' meeting		
Cash dividend (¥5 per share)	6,658	
Total		6,658
Surplus profit carried forward to the following term		995

**Basis of financial statements**

## 1. Valuation of trading assets/liabilities

Trading assets and liabilities are recorded on the trade date basis at fair market value.

## 2. Valuation of non-trading securities and commodities other than securities

Listed securities are valued on the settlement date basis at the lower of cost or market, cost being determined by the moving average method. Unlisted securities and commodities other than securities are valued on the settlement date basis at cost determined by the moving average method. Money trust adopts the same method.

## 3. Depreciation of fixed assets

## i .Tangible fixed assets

Depreciation expense is calculated by the declining-balance method stipulated in the Japanese corporate tax code. But buildings bought after April 1<sup>st</sup> 1998, are calculated by the fixed amount method.

## ii .Intangible fixed assets, Investments and other

Fixed amount method is adopted.

## 4. Accounting for lease transactions

A finance lease which does not virtually transfer ownership to a lessee is accounted for in the same manner as operating leases. The finance lease falling within this category and an operating lease are not capitalized and related lease payment is expensed as incurred.

## 5. Accounting for consumption taxes

Consumption taxes are separately recorded when booking a respective transaction and the net amount of temporary advances and receipts is included in other current assets or liabilities.

## 6. Provision for doubtful account

The company accounted the necessary amount by calculating individually, using the limit of actual transferred ratio as prescribed by Tax Law in accordance with the amendment of the law in this fiscal year instead of using the legal transferred ratio.

## 7. "Liquidation loss of retirement pay" is appropriated for preparation of retirement pay at term-end by ones own convenience retire according to the regulation of retirement. But a part of retirement pay is adopted approved retirement annuity system, so the balance of liquidation loss of retirement pay at term-end is paid retirement pay deducted the balance of approved retirement annuity fund. And in this fiscal year, all accrued retirement benefits is appropriated for "Accrued liabilities" by clearing of retirement plan because of change for holding company.

And "Prior-year adjustment for retiring officers' benefit" is newly adopted in this fiscal year. Fair periodic income and loss, and financial strength are promoted result from allocation of expenses during officer's term of office, for retire of many officers planed at change for holding company

## 8. Provision of Statutory reserves

The reserve for securities trading loss was abolished in accordance with the Securities and Exchange Law amended on December 1,1998.The whole amount of the reserve was reversed on this fiscal year end.

## 9. Period allocation of income taxes

Tax effect accounting was applied in this fiscal year.

**Notes to balance sheets**

(millions of yen)

	<u>Mar. 31, 1999</u>	<u>Mar. 31, 1998</u>
1. Accumulated depreciation of tangible fixed assets	24,433	23,163
2. Guarantees	232,041	125,634

Due to JICPA Auditing Committee Report NO.61 “Audit Treatment of Accounting and Reporting of Debt Guarantees and Similar Acts” (February 22, 1999), substantial guarantees noted as similar guarantees on “Notes to balance sheets”.

(millions of yen, thousands of share)

	<u>Mar. 31, 1999</u>	<u>Mar. 31, 1998</u>
3. Treasury stock (*)	17	33
(Number of shares)	(32)	(61)

(\*) Included in “other current assets”.

## 4. Decrease in the number of outstanding shares for the year ended March 31, 1999

Amortize by profit

(thousands of share, millions of yen)

	<u>Mar. 31, 1999</u>	<u>Mar. 31, 1998</u>
Number of shares	3,832	9,021
Amount of retirement	1,970	4,057

5. Long-term borrowings include the following subordinated borrowings which are deemed as a supplementary item of the capital under the Ministerial Ordinance on the Capital Adequacy Rule for Securities Companies (MOF Ordinance No.67. 1992).

(millions of yen)

<u>Mar. 31, 1999</u>	<u>Mar. 31, 1998</u>
195,000	100,000

## 6. The reserves of financial assistance to related companies

The board of directors meeting of the parent company approved that the Company provided financial assistance of 82,000 million yen to Daiwa Finance Co. Ltd., 24,000 million yen to Nippon Investment & Finance Co. Ltd., and 9,800 million yen to Daiwa Sanko Co., Ltd. in current fiscal year. The purpose was to assist these companies in solving their problems related to non-performing loans. This financial assistance that didn't be provided yet, was appropriated for “The reserves of financial assistance to related companies”.

## 7. Deduction from profit available for dividend

Trading assets and liabilities are recorded on the trade date basis at fair market value and included valuation loss and profit. Valuation profit that is more than valuation loss deducts from profit available for dividend, but there isn't any valuation profit in this fiscal year.

8. In accordance with the MOF Ordinance to securities firms, “Provision of income taxes” is changed to “Accrued income taxes.” Accordingly, accrued business taxes ever included in “Provision of income taxes” are recognized in

“Accrued liabilities.”

9. Due to an amendment to the MOF Ordinance of the Form and Presentation of Financial Statement, “Deferred income taxes assets” is newly adopted on balance sheets.

10. Earned surplus reserve

Art.288 of Commercial Code applies instead of Art.58 of Securities Exchange Law that was eliminated on December 1, 1998 amendment, requiring companies to accumulate not less than one-tenth of the appropriated profits to the extent to which the reserve reaches a quarter of the stock capitalization. The reserve at the end of this fiscal year surpasses the prescribed amount by 10,729 million yen.

### Notes to income statements

1. Selling, general and administrative expenses

(millions of yen)

	<u>Mar. 31, 1999</u>	<u>Mar. 31, 1998</u>
Commissions and other expenses	34,369	34,950
Employees' compensation and benefits	86,593	79,073
Real estate expenses	43,069	42,013
Data processing and office supplies	34,737	34,089
Depreciation expenses	5,116	3,488
Taxes other than income taxes	7,561	15,626
Other	7,186	7,784

2. Due to an amendment to the MOF Ordinance of the Form and Presentation of Financial Statement, business tax included in “Taxes other than income taxes” before, is included in “Income taxes”. But there isn't effect on “Ordinary income”, “Income before income taxes” and “Net income”.

3. Due to an amendment to the MOF Ordinance of the Form and Presentation of Financial Statement, “Income taxes-deferred”, is newly adopted on income statements.

4. Financial assistance to related companies on extraordinary loss

The board of directors meeting of the parent company approved that the Company provided financial assistance of 82,000 million yen to Daiwa Finance Co. Ltd., 24,000 million yen to Nippon Investment & Finance Co. Ltd., and 9,800 million yen to Daiwa Sanko Co., Ltd. in current fiscal year. The purpose was to assist these companies in solving their problems related to non-performing loans.

5. “Prior-year adjustment for retiring officers' benefit” is newly adopted in this fiscal year. Fair periodic income and loss, and financial strength are promoted result from allocation of expenses during officer's term of office, for retire of many officers planed at change for holding company.

The accrual in this fiscal year amounts to 421 million yen included in SG&A expenses, while that in the prior years is 973 million yen recognized in extraordinary loss.

6. Liquidation loss from retirement pay

“Liquidation loss of retirement pay” is appropriated for preparation of retirement pay at term-end by ones own convenience retire according to the regulation of retirement. In this fiscal year, accrued retirement was drew for disbursement by company's ratio, because of clearing of retirement plan by change for holding company.

**Supplemental information for this fiscal year ended March 31, 1999**

## 1. Breakdown of commission income

## (1) By activity

(millions of yen)

	Mar. 31, 1999	Mar. 31, 1998	(A)/(B) (%)
	(A)	(B)	
Brokerage commission	72,802	83,665	87.0
(Stock)	( 66,337)	( 72,293)	(91.8)
(Bond)	(6,452)	(11,342)	(56.9)
Underwriting & distribution	21,972	13,935	157.7
(Stock)	( 13,970)	(4,326)	(322.9)
(Bond)	(8,001)	(9,609)	(83.3)
Subscription & distribution	37,760	44,622	84.6
Other commission	44,587	40,083	111.2
Total	177,123	182,307	97.2

## (2) By asset class

(millions of yen)

	Mar. 31, 1999 (A)	Mar. 31, 1998	(A)/(B) (%)
		(B)	
Stock	83,274	79,472	104.8
Bond	19,890	25,803	77.1
Beneficiary certificate	70,515	74,657	94.5
Other	3,442	2,373	145.0
Total	177,123	182,307	97.2

## 2. Breakdown of trading gains &amp; losses

(millions of yen)

	Mar. 31, 1999 (A)	Mar. 31, 1998 (B)	(A)/(B) (%)
	Stock	9,732	△ 84
Bond & forex	36,087	18,371	196.4
(Bond)	(26,824)	(14,509)	(184.9)
(Forex)	(9,263)	(3,861)	(239.9)
Total	45,820	18,287	250.6

## 3. Trading volume of stocks (excluding futures transaction) (millions of yen, millions of share)

	Mar. 31, 1999 (A)		Mar. 31, 1998 (B)		(A)/(B) (%)	
	# of shrs	yen amount	# of shrs	yen amount	# of shrs	yen amount
Total	38,404	29,883,606	26,136	31,345,902	146.9	95.3
(Dealing) (a)	(12,847)	(11,259,320)	( 6,318)	(10,528,929)	(203.3)	(106.9)
(Brokerage)(b)	(25,557)	(18,624,285)	(19,817)	(20,816,972)	(129.0)	(89.5)
b/(a + b)	66.5%	62.3%	75.8%	66.4%		
TSE share <sup>(*)</sup>	9.0%	9.1%	7.0%	7.4%		
Brokerage commission/share	¥2.49		¥3.38			

<sup>(\*)</sup>“TSE share” is calculated by dividing the Company’s trading volume on the Tokyo Stock Exchange (TSE) during this

4. Underwriting activities

(millions of yen, millions of share)

	Mar. 31, 1999 (A)	Mar. 31, 1998 (B)	(A)/(B) (%)
<u>Underwriting:</u>			
Stock (# of shares)	93	93	99.2
(yen amount)	516,792	121,401	425.7
Bond (face value)	2,225,080	2,080,721	106.9
CP & other (face value)	953,400	1,748,500	54.5
<u>Subscription &amp; distribution<sup>(*)</sup></u>			
Stock (# of shares)	94	90	104.5
(yen amount)	525,369	144,449	363.7
Bond (face value)	2,776,649	2,583,872	107.5
Beneficiary certificate (face value)	14,258,642	13,498,834	105.6
CP & other (face value)	952,400	1,752,400	54.3

<sup>(\*)</sup> Including secondary offering and private placement

5. Capital adequacy ratio

(millions of yen)

		Mar. 31, 1999	Mar. 31, 1998
Basic item	Total stockholders' equity (A)	626,193	751,059
Supplementary item	Statutory reserve	783	46,666
	Allowance for doubtful accounts	3,900	4,756
	Subordinated borrowings	195,000	100,000
	Unrealized gain/loss on securities	45,923	46,693
	Total (B)	245,607	198,117
Assets excluded from capital (C)		453,285	520,026
Capital after exclusion (A)+(B)-(C) (D)		418,515	429,149
Risk equivalent	Market risk equivalent	36,974	51,451
	Counterparty risk equivalent	42,111	31,613
	Fundamental risk equivalent	54,897	58,439
	Total (E)	133,983	141,504
Capital adequacy ratio (D)/(E)×100%		312.3%	303.3%

6. Number of directors & employees

	Mar. 31, 1999	Mar. 31, 1998
Director	37	35
Employee	7,571	7,319

**Fair value of securities held for non-trading purpose**

(millions of yen)

Classification	Mar. 31, 1999			Mar. 31, 1998		
	Carrying amount	Fair value	Gain /loss	Carrying amount	Fair value	Gain /loss
(1) Current assets						
Stock	17	20	3	33	34	0
(2) Non-current assets						
Stock	131,693	182,524	50,830	157,051	208,680	51,628
Bond	—	—	—	—	—	—
Other	12	60	47	12	58	46
Non-current asset: subtotal	131,706	182,584	50,878	157,064	208,738	51,674
Total	131,723	182,605	50,881	157,097	208,773	51,675

(Note)

1. Fair value is determined based on an exchange price or the official quotation price publicized by the Japan Securities Dealers Association.
2. The stock in the current assets is a treasury stock.
3. Securities not subject to the fair value disclosure:

(millions of yen)

	<u>Mar. 31, 1999</u>	<u>Mar. 31, 1998</u>
Non-current assets		
Unlisted Stock	137,235	190,947
Other	11,801	26,895
(Subscription certificate)	(4,266)	(4,266)
(Foreign beneficiary certificate)	(7,535)	(22,629)

**Contract amount and fair value of derivatives held for non-trading purpose**

1. Non-trading derivatives are held to hedge interest rate risk and foreign exchange risk.

2. Derivative related to equity instruments

Not applicable for this fiscal year

3. Derivatives related to fixed-income instruments

(millions of yen)

Classification	Mar. 31, 1999				Mar. 31, 1998			
	Contract amount		Fair value	Valuation gain/loss	Contract amount		Fair value	Valuation gain/loss
		Over 1yr.				Over 1yr.		
Interest swap	5,000	5,000	172	188	—	—	—	—

(Note)

1. The fair value of the derivatives are calculated based on the discounted cash flow method.

2. Appraisal profit or loss deducts from accrued income or accrued expenses.

3. The above derivatives are held to hedge the following items:

(millions of yen)

	<u>Mar. 31, 1999</u>	<u>Mar. 31, 1998</u>
Long term loan	5,000	—

4. Derivatives related to foreign currency exchange rates

(millions of yen)

Classification	Mar. 31, 1999				Mar. 31, 1998			
	Contract amount		Fair value	Valuation gain/loss	Contract amount		Fair value	Valuation gain/loss
		Over 1yr.				Over 1yr.		
Currency swap								
Australia \$	2,000	2,000	399	318	2,000	2,000	446	352

(Note)

1. The fair value of the derivatives are calculated based on the discounted cash flow method.

2. Appraisal profit or loss deducts from accrued income or accrued expenses.

3. The above derivatives are held to hedge the following items:

(millions of yen)

	<u>Mar. 31, 1999</u>	<u>Mar. 31, 1998</u>
Long term borrowings	2,000	2,000

4. The above table does not include derivatives allocated to foreign currency denominated assets and liabilities for hedging purpose.

## **Year 2000 Compliance Project**

### **I. Daiwa's measures**

#### **1. Management policy on Year2000 project**

To fulfil our obligation to our customer and business partners, Daiwa recognizes that Year 2000 compliance is a key factor to maintain our worldwide creditability. Daiwa has initiated a range of actions since 1996.

#### **2. The Project and its Organization**

In order to run the project throughout the company, we have established Year 2000 Compliance Project Committee ("Y2K Committee") which is directly supervised by the Board of Directors. The Committee meets every month to review overall remedial status and action plans, and progress done by each Department.

The progress report from the Y2K Committee will be reviewed by the Board of Directors and other Board members' meeting at least once a month.

On April 26, 1999, Daiwa Securities Co. Ltd. will transform its corporate structure into a holding company, "Daiwa Securities Group Inc." by splitting its wholesale and retail securities businesses into "Daiwa Securities SB Capital Markets Co. Ltd. (operation started on April 5, 1999)" and new "Daiwa Securities Co. Ltd. (operation to be started on April 26, 1999)", respectively.

After the transformation is completed, the holding company will lead the Y2K project in closer cooperation with those retail and wholesale subsidiaries each of which establishes the committee therein. Additionally, the Y2K Committee makes sure the compliance in 22 domestic group companies and 16 overseas subsidiaries through an inspection visit or requirement of report submission.

#### **3. Current status of the Project**

##### **(1) Systems**

In addition to promoting end-to-end data processing test with our customers, counterparties, and Daiwa overseas offices, starting December 1998, Daiwa is also actively involved in end-to-end data processing test with financial industry organizations. As we recognize our systems for Y2K compliance only after completion of street-wide testing and analysis of the testing results, Daiwa's compliance programs are planned to complete at the end of June 1999.

Internal testing for critical systems for our core business was completed by the end of December 1998. However due to undergoing partial renovation on equity trading systems which has been designed for Y2K compliance, we would have re-assurance test for the said systems after the Implementation.

Although we have been contacting and collecting vendor's compliance letter for every hardware and software, some letters have not been received yet or vendor's upgrade for the products still has not been done. We will continue monitoring vendor's compliance status for those outstanding inventories and revised retro-status change like "Y2K ready" to "not ready but in progress". Internal assurance test for these products would also be conducted.

## (2) Facilities

For communication network equipment such as telephones, facsimiles, PBX/PBAX, office facilities including vaults, anticriminal/fire pre-action systems, elevator/lift, air-conditioning systems, basically we have been requesting vendor's compliance letter. Up to March, 1999 we have not heard reply for some products however, we continue to collect all vendor's compliance statements and replace those facilities in doubt with the one(s) which is (are) in a full Y2K compliance.

## (3) Impacts from outside

We have been aware the potential risk scenarios that our customer's/their counterparty's Y2K incompleteness would affect Daiwa's normal operation directly or indirectly. One of our remedial approaches to minimize the potential risk is interactive disclosure by sending/responding questionnaires to our customers and counterparties and active participation of end-to-end testing with these firms.

## II. Cost

We estimate that total cost for the project would be approximately 4 billion yen (3 billion for upgrading hardware/software and 1 billion expenses for programming and external testing and so on), and approximately 1.2 billion yen has been consumed. All the cost will be self-funded, and it will be unlikely to adversely affect Daiwa's financial conditions.

## III. Contingency Plans

We have been engaged to establish Y2K contingency plans, taking into full consideration a credit risk, a legal risk, reputation risk, a liquidity risk, and administrative risk.

Y2k Committee's approach to establish contingency plans has been started to identify the "What-if" risk scenarios and then developing, testing and implementing the required solutions. The Committee is also addressing the potential problems with multiple, simultaneous, and chain-reaction stemming levels.

Y2K Committee has been motivating and promoting all Daiwa departments in HQ, branches, subsidiaries and overseas offices to prepare contingency plan(s) with their specific responsibilities. Contingency plans formulated at each business -unit-level as a cell for maintaining normal service ability are integrated at Y2K Committee. To ensure enterprise-wide risk reduction and Y2K compliance, the Committee re-assesses the availability of the Plan and how each of them works together effectively to protect Daiwa's day-to-day business. After Y2K committee has clarified an Emergency Command Line and ensured availability of "hot-standby" human resources over a holiday period, Daiwa's Contingency Plan will be completed at the end of June 1999.

As a player of financial markets, Daiwa is actively involved into point-to-point tests with Bank of Japan, Stock Exchanges, and other financial firms, and is trying to find potential critical path at the earliest stage.

We also recognized that cooperation with our customers and counterparties is the key. Since November 1997 we have been participated in Y2K Reference Workshop with Japan Securities Dealers' Association to share the information for compliance status with Stock Exchanges, Bank of Japan, and brokerage houses.